

## **Issue Brief: Retirement Security**

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Retirement security is a goal out of reach for many American workers. Our traditional private pension system is wearing thin with fewer workers now covered by defined benefit plans than ever before. Over the last few years, some companies have taken the cynical view that the bankruptcy process is a legitimate business strategy for eliminating pension obligations. Even healthy companies are renegeing on their decades-old commitment to retirement security for their employees by freezing plans and replacing guaranteed benefits with 401(k) contributions.

In August of 2006, Congress passed the Pension Protection Act of 2006. This legislation was dubbed by many the most significant change to the nation's pension law since the passage of ERISA in 1974. It was the product of months of intense lobbying by labor and business, accountants and actuaries, consumers and experts.

The final bill came out of a difficult conference process by which members of the house and senate struggled to reach compromises acceptable to their goals and those of their various constituencies. Unfortunately, the result was a mixed bag for retirees and prospective retirees – active workers.

In the end, the Pension Protection Act of 2006 ran over 900 pages and strengthened funding requirements for defined benefit pension plans; created opportunities for the creation of new cash balance pension plans; opened the possibility for automatic enrollment in 401(k) plans with mandatory contributions by both employee and employer; provided for investment advice to employees participating in 401(k) and many other specific changes to the retirement system.

Nonetheless, PPA 2006 did not prevent employers from freezing the pension plans they sponsor, regardless of how well funded they may be; did not resolve the long running dispute over age discrimination in past cash balance conversions; requires employees to opt out of a

savings plan in which they do not want to participate if their employer automatically enrolls them; allows the same companies that provide savings plan services to give investment advice, a situation fraught with potential conflicts of interest.

While there may be little stomach in Congress for another difficult the fight to protect retirement security, there are very real needs which were not addressed by PPA 2006:

1. Congress should enact corporate bankruptcy reform to protect workers pensions and retirement savings

Examples such as United Airlines and the Delphi Corporation have demonstrated the desperate need to reform the bankruptcy process to protect the interests of workers and retirees as employers seek to cut labor costs by eliminating the costs of pension and health coverage. Almost no aspect of financial security for workers is protected as a bankrupt employer seeks to strip its costs to improve its "competitiveness".

CWA and the AFL-CIO support reform to provide workers with a claim in bankruptcy court for lost pensions and retirement savings assets and to prohibit companies from selling assets to escape the payment of promised benefits

2. Congress should enact tax policies to encourage employers to maintain their defined-benefit pension plans.

PPA 2006 changed the rules in to improve the level of funding available to support the pension benefits which employees have earned. However, there are no assurances that companies will not assess these additional funding requirements as incentives to freeze current benefits and eliminate future accruals.

CWA and the AFL-CIO support new tax policies to provide additional incentives to employers who fully fund their benefit plans and insure retirement security guarantees.

3. Congress should explore other delivery systems to provide American workers with a guaranteed retirement benefit to supplement Social Security.

While half of American workers participate in an employer sponsored pension plan, fewer than 20% can depend on a defined benefit pension plan which guarantees a level of income security for their years in retirement. The rest of those with a plan must depend on the success of their investments in a savings plan to develop their income source for retirement. But fully half of the workforce is without any employer-sponsored plan. These workers have only Social Security and their own savings on which to depend.

CWA and the AFL-CIO support efforts to develop new savings plan vehicles that would help employers to help employees to save for their retirement. These plans should afford a mix of guaranteed savings options as well as investment opportunities.

#### 4. Congress should require uniform and clear disclosure of defined-contribution plan fees

The Government Accounting Office (GAO) reports that in 2005 some 47 million Americans had invested more than \$2 trillion in 401(k) plans. But 80% of those workers had not idea how much they were paying in fees to participate in those plans. The amount of those fees can have a very significant impact on the ultimate value of those savings plan investments in retirement.

CWA and the AFL-CIO support the recommendations of the GAO report that would have Congress amend the rules governing the disclosure of fees by 401(k) plans to eliminate the current "piecemeal" rules which are hurting plan participants.